Toronto Dominion Bank

Annual Meeting of Shareholders

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Addresses by

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Chairman of the Board and President

and

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Allen T. Lambert,
Chairman of the Board and President

If I had been speaking to you a month ago, I could not have been as optimistic about international economic relations as I am now. For four months after the August 15th announcement of President Nixon the ominous clouds of international economic disagreement hung over a disquieted Canadian economy. The December agreements however have largely dispersed these clouds and the common sense and good will of the ten major industrial nations have prevailed and made an outstanding economic agreement possible.

Six months ago few would have suspected that major and necessary currency realignments could have been as quickly agreed upon and the needed devaluation of the U.S. dollar achieved. These agreements, including the removal of the U.S. surcharge and the widening of the bands around parities, are a significant advance. They augur well for the serious negotiations on trade and other matters which will follow.

This does not mean that the difficult and contentious problems which have

arisen concerning the international payments system and international trade have disappeared entirely. They have been greatly eased by the agreements reached by the Group of Ten last month — but some major questions remain unanswered. The international monetary system evolved over the past 25 years, has been seriously undermined and the world's major trading arrangements developed under GATT have been threatened. The December Agreements, however, provide a reasonable and workable basis for developing a new system of international payments and an atmosphere for continued negotiations on world trading problems which should hopefully produce positive results.

Conflicting trade objectives

A remaining difficulty in our present trade and payments system is that all nations are free to pursue trade or balance of payments policies that may be incompatible with the policies of other nations. So long as the United States, Canada, and the other nations of the world have trade objectives which, taken together, are basically in conflict, there is no system of exchange rates or trading agreements that will resolve the situation. Every nation cannot have a trade surplus at the same time.

The major task that faces the nations of the world today is that, in agreeing upon a set of exchange rate parities and trading arrangements, they must be willing to accept the consequences of those agreements. This will require much more prompt action when exchange rate adjustments become clearly needed.

I believe that further development of the International Monetary Fund as an effective world banker is desirable. This could be achieved through the closer management of the volume of international reserve assets of all kinds, and the better integration of the use made of different types of assets, including the Special Drawing Rights. In addition, some funding of the enormous short term liabilities of the reserve currency countries will be necessary. The return to fixed parities — and Canada should not long remain an exception — was a constructive step.

When President Nixon announced his economic measures last August, Canadians were forcibly reminded of our great dependence on a satisfactory trade relationship with the United States. For decades, and at an accelerating pace in the 1960s, Canadian trade has been concentrated in that country. This arises from the accessibility of those markets, similar North American tastes, growing shortages in the United States of raw materials — particularly energy — and by the Auto Pact and Defence Production Sharing Agreements. Today, about 70 per cent of our merchandise exports are sold to the United States compared with 56 per cent in 1960. Similarly a growing proportion of our imports — now 71 per cent — is supplied by them.

Canada-U.S. trade

Despite the advantages to Canada of this growing mutual trade, many Canadians are concerned that concentration on one market may affect our ability to act independently in economic matters. We have also been

forced to question the long-term reliability of the American market. Some have ruefully observed that we seem to stand alone in a world in which other nations are gathering together in powerful trading blocs. It is not surprising, therefore, that we are re-examining the problems and prospects implicit in a greater or lesser degree of economic integration within the North American continent.

It is said in today's world of mass production and high volume technology that a country must have access to a market of at least 100 million customers to be economically viable. Some believe the answer for Canada lies in a more direct association with the European Common Market or the Pacific Rim countries. I agree that closer economic ties with these areas are possible and desirable and on my recent trip to the Far East, including Peking, I became reconfirmed in this opinion. But geography, culture, tastes and the nature of demand in these markets are such that we cannot benefit from trade with them to the same extent that we can by even a passive participation in North American markets. To ignore this rich area of over 200 million consumers, would be folly indeed.

Development strategy

What should our strategy be, then, for developing our trade with the United States?

I believe that we should work towards an increasing freedom of movement of goods across our mutual border. Our ultimate objective should be the maximum freedom of trade in goods commensurate with the maximum benefits possible to the development of Canadian productive capability and the Canadian consumers' needs. This objective may seem unrealistic in the context of today's trade restrictions and difficult negotiations but I, for one, look upon these as temporary problems which will eventually be resolved.

We are going through a difficult phase of adjustment and the cost to Canada, in the medium term, could be a diminution of our trade surplus. But in our negotiations, we must be both resourceful and firm to ensure that we do not revert to our historic position as a net importer of goods from the United States. From the end of World War II till 1968, Canada bought $14 billion more of goods from the United States than we sold to it. Since then we have had a cumulative trade surplus of just $3 billion with that country. Obviously, we cannot insist upon a continued growth of such surpluses but, as noted earlier, our efforts should be directed to avoiding a return to a trade position that would put our current account in deficit.

We also face the task of finding ways of breaking down other trade barriers. The United States will willingly purchase increasing quantities of our surplus resources. But not enough of the 1.4 million jobs that Canada must create by 1975 will be generated by the capital-intensive resource industries. The service industries will continue to provide new job opportunities on a large scale providing our resource and manufacturing industries expand vigorously. It is important, therefore, that in addition to the con-

tinued development of our resource industries, we place increased emphasis on the manufacturing sector.

Manufactured exports

It will not be easy for us to expand our manufactured exports as rapidly in the 1970s as in the 1960s when they were stimulated by a number of special factors such as the Auto Pact. We also face the future with a new obstacle created by the over eight per cent revaluation of the Canadian dollar. Nevertheless, there are trade initiatives which Canada might embark upon. We might, for example, explore the possibility of removing all tariffs on exchanges of raw materials. Along with this, we might offer access to those of our resources which are surplus to our own needs as a *quid pro quo* for greater export opportunities for our manufactured goods.

Alternatively, Canada might propose the gradual reduction or elimination of tariffs in selected manufactured products. Indeed, a condition for multi-national companies serving the Canadian market from a Canadian source might be a guarantee of access to the American market. This might be attempted first in those manufacturing sectors where our competitive strength is assured.

I am convinced that study will reveal that costs on this side of the border are not higher, and perhaps are lower, than costs south of the border for a number of industries, given equivalent production runs. A number of manufacturing sectors in Canada have exported an increasing proportion of their production during the 1960s. I believe this trend can be extended in the 1970s by the negotiation of further sectoral free trade agreements. But they should only be negotiated with safeguards, not only for Canadian producers, but for American producers as well.

The absence of any safeguards at all in our farm machinery free trade agreement with the United States eventually favoured American producers. But the safeguards written in the Auto Pact on Canada's behalf, though they contributed little to the positive results achieved by Canada, assured that the auto trade would not go the way of the farm machinery trade.

As an additional approach, Canada might initiate a gradual bilateral or multilateral mutual reduction of tariffs on manufactured goods. If, for instance, Canadian tariffs were reduced by one per cent a year, over an agreed number of years, trade opportunities particularly with the United States, would continue their momentum of the past decade. Even in these circumstances, Canada's tariff protection would, in general, continue to exceed that of most of its trading partners and particularly that of the United States. By the time the agreed-upon transition period had elapsed, most "nuisance" tariffs on both sides of the border would have been removed.

These, then, are some of the ways in which Canada should strive to further revitalize trade after the current uncertainties are settled. I am convinced that our strategy should be for Canada to take the initiative in restimulating Canada-United States

trade, particularly in manufactured goods.

Exports ratio

Any of these approaches, if successful, would not be starting us along an unfamiliar path. Canadians should not feel too alarmed about the prospect of an ultimate removal of most of our remaining tariffs providing there are adequate safeguards against serious dislocation of industry. There is already a large two-way movement across our common border in duty-free, manufactured goods. Many Canadians may be surprised to know that nearly half of our total exports to the United States is now made up of highly manufactured goods, and that an additional third of our exports to that country is in the form of fabricated, or semi-manufactured goods. Only 17 per cent of our total exports to the United States represents raw materials. We must preserve these ratios and if possible extend them in Canada's favour.

It may also come as a surprise to many Canadians to realize that two-thirds of all the products which we export to the United States are free of duty while 70 per cent of goods which we import from the United States enter this country duty free.

There will be those who are fearful of the implications of further integration of our producers with United States markets and of United States producers with our markets. But so long as Canadians insist upon the same standards of living as their American neighbours, we will have no alternative but to reach out for larger markets.

To ensure that this can be fostered, and that it cannot be thwarted by the large role played by foreign investment in this country, our political leaders and institutions should be given all possible support in their attempts to maintain Canada's industrial viability and integrity. This imposes an obligation on government to enunciate an unqualified industrial strategy for Canada for the coming decade. A major part of such a program, insofar as our trade in manufactured goods is concerned, should be the assurance that foreign subsidiaries operating in Canada are not denied access to the United States market. Given this assurance, I am quite confident that Canadian manufacturers will succeed, along with other producers, in generating export surpluses of a sufficient size to cover our growing non-merchandise deficits.

Outside capital

The corollary to the objective of a balanced current account must be a balance on capital account as well. Canada has been too dependent on outside capital and this pattern is particularly apparent in our bilateral account with the United States.

New patterns should be sought in the long-term capital flows between the United States and Canada which would be in the best interests of both countries. Canada's soon-to-be announced policy on foreign direct investment will, presumably, have some balance of payments impact in the desired direction. We should avoid unnecessary controls on short-term capital movements. But the major challenge to Canadian capital markets

and governments, is to improvise the institutions, intermediation and underwriting to minimize the degree to which provinces, municipalities and corporate borrowers have to rely on foreign sources in the next few years. Here is where Canadians can make a useful contribution to helping the United States balance of payments situation and, at the same time, correct a distortion in our own.

Repegging the dollar

Trade and capital adjustments of the type I have described will undoubtedly take some time to negotiate. Until these adjustments have taken place, the Canadian dollar should continue to float. I anticipate that such adjustments will result in a lower value for the Canadian dollar than presently exists. Once the adjustments have been completed, however, the Canadian authorities should be quick to repeg the dollar at an appropriate level within the internationally allowable margin of flexibility of 2¼ per cent either side of parity. In my view, it is quite feasible that a new fixed trading range for the Canadian dollar would have as its upper limit approximate parity with the U.S. dollar. Such a new fixed trading range appears compatible with our exchange rate market experience since May of 1970, the business community's desire for more certainty in exchange rate matters, an appropriate share for Canada of the necessary international exchange rate adjustments and our growth and employment objectives in the 1970s.

Foreign ownership

In considering Canada's international position and, especially, our relations with the United States, one cannot avoid the question of foreign ownership. This has become an extremely sensitive and important issue in Canada. It is an issue debated with emotion but unfortunately there has been too little research in depth devoted to it. Canada has always welcomed foreign capital and it would be obviously unfair to penalize now those we welcomed at an earlier time.

The key to the issue of foreign investment lies in a coherent and definite industrial development policy operating under explicit guidelines. Such a policy should indicate the nature of growth, the kinds of industries, the regional development and the kind of trade performance we want. It should also clearly indicate the kinds of skills we want to develop and the technology we want to encourage as well as the research to be carried on in Canada. Foreign companies coming to Canada in the future should make provision for Canadian equity participation, board of directors representation and management. And, finally, we must decide whether we are prepared to treat all those who come to our nation as equals with ourselves. Without clear guidelines, we may allow emotional and nationalistic feelings to overrule our best long-term interests or impede the desirable development of Canada's economy.

Technology needs

Our population is growing rapidly. We know that while the skills and educational achievements of our people are high, they will rise even more rapidly in the future. The implication is inescapable. We must remain pro-

gressive, modern and competent because technology is becoming the determinant of national success or failure. In a world of technological giants, Canada can only expect to attain distinction in selective fields. Our industrial strategy, therefore, must encourage residents of Canada, whether nationals or foreigners, to contribute to special innovative and technical competence, while enabling all residents to have access to international technology.

Business-government accord

A viable industrial strategy for Canada must also lay great stress on business-government relations. It has been said that this relationship has deteriorated in recent years in Canada. Whether this is so or not, the important point is that business and government must work together much more effectively than has been the case in the past if Canadian goals in both domestic and international areas are to be identified and achieved.

Since the current government took office, there have been White Papers or Task Force Reports on taxation, Indian affairs, social security, agriculture, foreign investment, foreign policy, competition policy, labour relations and housing. A large amount of draft legislation, much of it in omnibus form, has followed. There is no question that business has been hard-pressed to digest all this and, more significantly, to offer constructive criticism and suggestions. The business community has itself been criticized for being excessively critical, yet, in many cases, the criticism has been warranted. There are examples in the Competition Act, Tax Reform Bill and the new Labour Code of drafting which is difficult to understand and seemingly in conflict with goals Canadians have envisaged for themselves.

It would seem that we have reached a dilemma. We are trying to achieve reform without clear understanding and acceptance of the direction and degree of reform which is desired by most Canadians. We have tried to provide for meaningful participation in the reform process but have frustrated these attempts by overwhelming people with too many issues in too short a time. Finally, we have failed to provide the proper balance between allowing for flexibility in the application of legislation, so necessary in rapidly changing times, and the degree of reasonable certainty in the legislative and economic environment which business must have to make its best contribution to Canadian society.

Defined goals

It is possible that our difficulties stem from too clouded a view of what we are reaching out for rather than from too much haste in the reaching. If our goals were more clearly defined, we would likely see more easily the importance of a combined and co-ordinated effort to attain them.

As a businessman, I urge the business community to take new initiatives in recognizing the need for change, especially the type of change which may benefit all parts of society. In turn, I urge government to offer legislation which can provide as much certainty as possible consistent with desired social changes and legislation which sometimes presumes that the busi-

ness community also aspires to a greater national good. More frequent and informal communication between business and government will help. But most important is the need for both business and government to believe that something useful can be accomplished by working together.

Business outlook

Now I would like to turn to the business outlook. We have experienced strong economic growth in Canada since the recession of 1969-70. It appears that last year our economy grew at a 9½ per cent rate and that the growth in real Gross National Product was about 6 per cent. The business outlook is for another year of strong economic growth in 1972, with dollar GNP rising by more than 10 per cent and real growth greater than in 1971. There will be some decrease in our unacceptably high rate of unemployment, but not enough to return us to a fully desirable level of employment. Though volume of business has been expanding, there is still considerable uncertainty in the business investment sector, though this atmosphere has improved dramatically with the December agreements on the world's monetary problems. With the prospect of a further substantial improvement in sales, Canadian business would do well to review its inventory and investment plans to be sure that it will have the goods and the capacity to meet expected rapid rate of economic growth.

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Address
by
Richard M. Thomson,
Vice-President and Chief General Manager

One of the most important economic variables affecting the banking system in general and the growth of the Toronto Dominion Bank in particular last year was the rate of increase in the money supply. During the period from October, 1970 to June, 1971, the increase on a seasonally adjusted basis was at an annual rate of 22 per cent but since June monetary policy has been somewhat less expansionary — the rate of growth dropping in this period to 14.5 per cent on an annual basis. However, the banking system has remained highly liquid and quite capable of accommodating accelerating credit demands.

In these circumstances, it is not surprising that 1971 was a year of strong growth for Toronto Dominion. Once again, we achieved a record ~~level~~ in all phases of our business and this is in line with the long term trend. In each of the past twenty years, our deposits, assets and earnings have climbed to new heights.

Total assets are a good measure of our performance. As of the close of our fiscal year our total assets were more than double what they were five years ago and about seven times greater than in 1951.

On the revenue side, the most important development was the drop in interest rates and this affected both our interest revenue and our interest expense. However, the reduction in interest expense was greater than in interest revenue and as a result balance of revenue rose 18.9 per cent to $66.1 millions.

After providing for a transfer to Accumulated Appropriations for Losses and for income taxes, balance of profits for the year recorded an increase of 23.4 per cent to $23.3 millions, equivalent to $1.56 per share as compared with $1.26 a share in the 1970 fiscal year.

Our Statement of Accumulated Appropriations for Losses shows a profit of $14.4 millions on securities in 1971 as against a loss of $3 millions in 1970. To a very large extent, this reflects a recovery of amounts provided in previous years to reduce securities, other than those of the Governments of Canada and the Provinces, to market values when interest rates were rising. This past year, bond values appreciated — hence, the recovery.

Our Canadian and foreign business increased at about the same rate, with Canadian currency deposits rising by 18.8 per cent and foreign currency deposits by 17.9 per cent. Toronto Dominion business expanded at a higher rate than that of the industry as a whole, the overall industry increase in Canadian currency deposits being 17.8 per cent and in foreign currency deposits 2.2 per cent.

International operations

Toronto Dominion's international business grew not only in volume but in importance and profitability. More than half of the increase in our balance of revenue was derived from increased profit in our international operations.

At one time, Toronto Dominion's only offices outside Canada were in the United States and the United Kingdom. Today, we also have offices in Tokyo, Hong Kong, Djakarta and Mexico City and others are planned.

We hold a 26 per cent interest in Midland and International Banks Limited (known as MAIBL) with headquarters in London, England. Since it started business in 1964, MAIBL's assets have grown to 491 million pounds sterling or $1.2 billion Canadian. Its earnings record has been excellent, with last year's profits after taxes totalling $3.5 million Canadian. This is a return of 14 per cent after tax on the original investment. Dividends of 8 per cent were paid during the year. Future prospects are encouraging, with earnings running well ahead of last year.

We have strengthened our position in the Far East during the past year. Toronto Dominion acquired a 10 per cent direct interest in the United Malayan Banking Corporation of Kuala Lumpur, Malaysia, which has 48 branches throughout Malaysia and Singapore as well as in Brunei and Bangkok. United Malayan also has a strong association with International Consolidated Investments Limited, of

Hong Kong, in which your bank holds a 40 per cent interest.

World Banking Corporation, with headquarters in Nassau, Bahamas, is another international banking organization in which Toronto Dominion has a substantial interest — one-third. Our major partner in this corporation is Bank of America. Assets of World Banking Corporation are in excess of $200 millions — eight times greater than when we acquired our interest five years ago.

Recently, the bank incorporated a new London subsidiary, Toronto Dominion Bank Investments (U.K.) Limited. This subsidiary, with paid-in capital of 250,000 pounds sterling, will enable us to extend our already broad range of international financial services.

Our wholly-owned subsidiary, Toronto Dominion Bank of California, opened for business in San Francisco in July. We are extremely satisfied with its progress for its achievements to date exceed our forecast.

Real Estate

Toronto Dominion is active in commercial real estate development in several urban centres where surveys indicate that new Toronto Dominion facilities are required. Toronto-Dominion Centre, in which your bank holds a 50 per cent interest, has proven to be an excellent investment. Later this winter, we will be starting construction of a third tower of 32 storeys. The finished cost of the banking hall and first two towers of the project was approximately $145 million and its replacement value today would be close to $200 million. Rental rates for prime space in downtown Toronto are now above $10 a square foot compared with an average of $7.25 a square foot for the original leases in the T-D Centre made during the 1965-68 period. The potential for increased cash flow, as leases come up for renewal is encouraging.

Last fall, Toronto Dominion Bank Tower in Pacific Centre, Vancouver, was officially opened. The office tower is now over 70 per cent rented and the retail store space is fully leased. Your bank is a one-third partner in Pacific Centre.

This winter, work will start on Edmonton Centre, in which we are 30 per cent partners. Plans call for construction of a banking hall, retail space, two office towers and a Woodward's department store on a one-block site at an approximate cost of $42 million.

This involvement in real estate reflects the importance of downtown sites not only as a source of banking business but also as an investment. Projects such as these build a good image for the bank, help us to develop business and provide convenient banking locations and facilities for customers in the core of downtown areas.

Venture capital

Toronto Dominion has been active for some time in making capital available to smaller enterprises which have neither the security normally required for

loans nor the resources to seek financing from the public through investment houses. Such enterprises may be either newly-formed companies to exploit a rapidly developing market or some new technology or may be small companies with a unique opportunity for an unusually large expansion in business.

Our involvement has basically taken two forms: firstly, on an indirect basis, through investments in such companies as Canadian Enterprise Development Corporation and UNAS Investments Ltd. and secondly, directly, in consortium financing with other investors.

Recently the bank sold two-thirds of its holdings of UNAS shares but this does not reflect a declining interest in providing funds to worthy new enterprises. Not only have we retained a significant interest (11%) in UNAS but we continue to recognize the importance of helping viable projects and are constantly looking for new opportunities.

Our commitments to new enterprises is illustrated by our assistance to two industries which recently, for a variety of reasons, have enjoyed unusual periods of expansion. I refer to the computer service industry and cable television. Your bank has played a constructive role in helping launch at least 10 enterprises in these two areas. The interesting aspect is that in most of these cases the appraisal of the loan or investment was made solely on the prospects of the company, our assessment of management and its ability to take advantage of new trends and developments. There are, of course, more risks involved in this type of investing than in standard bank lending but our experience to date indicates that we should further develop these types of activities in the future.

Investment in equities

Good progress has been made by the bank in reducing its holdings in Canada Permanent Mortgage Corporation to the 10 per cent limit required by the Bank Act. The bank now holds 12.3 per cent of Canada Permanent's shares. Last year application was made successfully to the Minister of Finance for an extension of the deadline for completing this reduction from July 1, 1971 to July 1, 1973, in order to permit an orderly disposition of the shares.

At present our investments in Toronto-Dominion Centre, Pacific Centre and some of our other more recent investments are not yielding any dividend income to the bank but over the long term we are confident that they will. On balance, however, our total portfolio of outside investments yields an excellent return in the form of dividends.

Debenture financing

From time to time the bank raises capital funds in order to keep our capital asset ratio at an acceptable level. Since the revision of the Bank Act in 1967, some banks, including Toronto Dominion, have raised additional capital through issuing debentures. The

debenture route is a low cost way of keeping our capital asset ratio at an acceptable level and last week we sold an additional $25 millions of 25-year debentures which brings the total debentures outstanding to $80 millions.

Rest account was increased by $30 millions by a transfer from undivided profits so that capital funds at October 31 stood at $246 millions, an increase of 32 per cent over a year ago.

Data centres

The year 1971 has seen a further expansion of our computer services to domestic branches. During the year a new data centre was opened in Calgary, bringing the total in operation to five. The centres located in Montreal, Toronto, Winnipeg, Calgary and Vancouver provide deposit accounting and related services to 457 branches handling over 70 per cent of our total deposit and cheque clearing volume. Last July, the Montreal and Toronto Data Centres were connected by telecommunications enabling the electronic exchange of information between these centres. Further use will be made of data transmission during the coming year to facilitate the extension of automated services to an even larger number of branches.

As a result of extensive research into on-line banking it is apparent that a trend towards lower equipment and communications costs will make it feasible to install these advanced systems in the majority of our domestic branches during the Seventies. The bank is making a significant commitment to the development of such systems in order to provide improved customer services, more effective cost control and a better working environment.

Personal loans

In personal instalment lending we had a favourable experience this past year. Volume increased, the amount of such loans outstanding at October 31, being 15 per cent higher than at the end of the previous year. At the same time, delinquencies declined.

The importance of the individual consumer has long been of primary concern to our bank. It is evident that we must continue to improve the range and quality of our services and, to this end, we are placing increased emphasis on personal loans. Our Personal Instalment Loan service and Chargex facilities form the basis for our approach to consumer credit and the response to these services has been encouraging. Of more importance, consumers are demonstrating increased awareness that proper use of credit services involves financial planning and here the bank has a positive role to play.

Your bank has an on-going programme of credit training to improve the ability of our personnel to assist our customers effectively with their credit needs. Our objective is not only to improve the quality of our service but also to fulfill our responsibility to make loans readily available to meet the legitimate needs of consumers and to assist our customers to avoid the pitfalls of excessive credit involvement.

The Toronto Dominion Chargex operation continues to grow and overall results being achieved are satisfactory.

Branch expansion

During the year there was further expansion of our branch network. Twenty-one new branches were established, bringing the total number to 794 at October 31. Since then six additional offices have been opened and just last week the 800th Toronto Dominion branch commenced business in Brossard, Quebec.

Personnel

Our slogan is "People Make The Difference" and we are proud of it. The superior performance and dedication of the bank's staff was a major factor in the excellent rate of growth we achieved this past year. Their skill, efficiency, loyalty and foresight was an essential ingredient in our progress and to them I would like to express sincere appreciation on your behalf.

Recognizing that the challenges of modern banking will require even better bankers in the future, our programs of in-bank education are under constant review and our personnel are encouraged to take courses sponsored by the Institute of Canadian Bankers and other educational institutions.

Forecast

Looking ahead to 1972 we can expect the banking system to provide strong support to growth of the economy. The large increases in lines of credit that have been granted are likely to be more fully utilized this year as business activity accelerates. Canadian business has been operating on very low inventories by historical standards, but we expect substantial inventory rebuilding will occur as the Canadian economy moves into its second consecutive year of vigorous recovery. In such a climate, borrowing for inventory purposes will probably dominate the first half of fiscal 1972, to be augmented later by borrowing for investment purposes. Meanwhile, consumer loans and mortgage demand will continue to grow strongly as incomes and employment rise.

The year 1971 witnessed interest rates which were lower on the average than had been the case in either of the previous two years. Such interest rate movements were appropriate stimulants to economic recovery from the 1969-70 recession. This year, Canadian interest rates will be influenced to a considerable extent by the effectiveness of anti-inflationary policies in the United States and we are hopeful that the U.S. Government will be successful in its wage and price restraint programme.

For 1972 we expect a continuance of a reasonably rapid growth in the money supply; strong increase in bank deposits; and relatively stable interest rates. The resulting growth in bank assets will be concentrated more in expansion of our loan portfolio than in the accumulation of liquidity. The bank is in an excellent position to take on additional lending business.

In conclusion, we are looking for another good year in 1972.